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**Budget, 1952-53**  
**Finance Minister's Speech**  
**29th February, 1952**

Sir,

I rise to present the budget of the Central Government for the year 1952-53.

This is only an *interim* budget although it has been prepared as usual for a full year. Its main purpose is to place before Parliament an account of the finances of the Central Government for the current year and the prospects for the coming year on the existing basis of revenue and expenditure so that the House may know the general background against which it has to deal with the demands which will be placed before it for a vote on account to meet the expenses of the administration till the new Parliament considers and passes the budget for the whole year. The budget which I am now presenting will be presented again in due course to the New Parliament with such changes as the new Government may consider it necessary. Meanwhile, Government propose to ask the House only for a vote on account to meet the anticipated expenditure during the first four months of the next year and to approve of the continuance of the existing measures of taxation.

A White Paper giving an account of the economic conditions in the country during 1951 and the main features of the revised estimates for the current year and the budget estimates for the next year is being circulated with the budget papers. I do not therefore propose to make any detailed speech introducing the

budget but I shall content myself with giving the House a brief account of salient features of the budget.

Before I deal with the estimates I should like to mention briefly the main developments in the economic conditions in the country during the year which is now drawing to a close. As Hon'ble Members are aware the vagaries of the monsoon have again left the country to face a substantial deficit in foodgrains during the coming year. In other respects the year's results are, however, more encouraging. For some months the steady rise in prices, which has been one of the disconcerting features in the country's economy since the commencement of the Korean war, has been halted and from July 1951 onwards there has been a steady downward movement in the price level. This welcome development can be traced as much to the world-wide falling trend of commodity prices as to the general disinflationary effect of the very large revenue surplus realised during the year and the withdrawal of a substantial volume of purchasing power from the public by the sale of imported wheat purchased from the American loan. The level of production in the principal industries of the country has also been higher than in the previous year and the larger supplies thus made available for internal consumption have had a steadying effect on prices. Agricultural production also showed some improvement although in the case of foodgrains the increased production secured by the Grow More Food campaign was more than wiped out by the shortages created by adverse seasonal conditions.

The balance of payments position during 1951, was not as favourable as in the preceding year. This was due partly to a fall in the demand for the principal exports of this country after the first phase of stock piling by the United States and other countries was over and partly to our having had to pay more for our imports, owing to a rise in world prices and increase in freight rates. I do not expect that these conditions will change materially in the coming year. We shall still have to import substantial quantities of foodgrains, and essential raw materials and capital and consumer goods, while no appreciable expansion of our principal exports is likely to take place, although Government will continue to take all

possible steps to maintain and develop the country's export markets. Among such steps I would mention the recent lowering of the export duty on hessian. I see little prospect of any reduction in the volume of our imports and in dealing with the problem of the adverse balance of payments position of the sterling area as a whole I made it abundantly clear that while we would assist in every way in stimulating the country's exports there was no scope for this country cutting down its imports to any significant extent in its present stage of development and with its chronic shortage of food.

The House will remember that in the current year's budget I had provided for a revenue surplus of Rs. 26.1 crores and an overall budget deficit, taking the revenue and capital budgets together, of Rs. 51.88 crores. I now estimate the revenue surplus for the year at Rs. 92.61 crores and the overall budget deficit at Rs. 3.7 crores. The improvement in the revenue position is mainly due to the extraordinary buoyancy of receipts from Customs which are now estimated to show an improvement of Rs. 76 crores over the budget. Union Excise duties and income-tax are also expected to show larger yields. Revenue as a whole is now placed at Rs. 498 crores against the budget estimate of Rs. 402 crores. Of this improvement of Rs. 96 crores, Rs. 30 crores will be absorbed by additional expenditure, mainly on the payment of food subsidies and expenditure on displaced persons, leaving Rs. 66 crores more than the original estimate for assisting the capital budget.

The capital budget was also assisted during the year by the net receipts from the sale proceeds of the wheat purchased from the American loan of 190 million dollars and wheat obtained from certain Commonwealth countries under the Colombo Plan. These together are estimated at Rs. 76 crores and taken with the increased revenue surplus of Rs. 66 crores more than balanced the shortfall of Rs. 50 crores in public borrowing and the contraction of Rs. 30 crores in the floating debt during the year, resulting from the liquidation of their investments by some of the States and other authorities. This also made it possible to make increased allocations for some of the capital schemes such as the River Valley projects during the year.

At the existing level of taxation and expenditure, I estimate the revenue for next year at Rs. 425 crores and the expenditure at Rs. 406½ crores, leaving a revenue surplus of Rs. 18½ crores. The actual surplus may be Rs. 15 crores more than the figure I have just mentioned and which Hon'ble Members will also find mentioned in the budget papers. The reason for this increase is that of the provision of Rs. 25 crores taken in the estimates for food subsidies, Rs. 15 crores is not likely to be required as a result of the decision announced last week by my Hon'ble colleague the Minister for Food and Agriculture about the abolition of the food subsidies except to a very limited extent.

The drop of Rs. 73 crores in revenue in the coming year as compared with the current year is mainly due to a reduction of Rs. 42 crores under Customs and Rs. 23 crores under income-tax. The fall in Customs revenue is accounted for by the reduction in the export duty on hessian recently announced and also by an estimated fall in the receipts from import duties which have been unusually high this year. The reduction in income-tax reflects the result of the action taken in the current year for the clearance of arrears and also the gradual disappearance of arrear collections of taxes no longer in force. I have also taken into account the disappearance from the Central budget of the revenue and expenditure of the five Part C States which will have their own separate budgets from next year.

The total expenditure next year is estimated at Rs. 406½ crores, of which Rs. 197.95 crores will be on Defence Services and the balance under Civil heads. As a result of the abolition of the food subsidies a saving of Rs. 15 crores is likely on these estimates. Defence expenditure will be Rs. 17 crores more than this year, mainly owing to the carry over of certain liabilities for stores on order from the current year. The other variations as compared with the original budget and the revised estimates are explained in the detailed memorandum circulated with the budget papers and I do not propose to weary the House by repeating them here.

Substantial provision has been included in the budget for the coming year for capital and development expenditure and for

loans to State Governments to assist them in financing their development schemes. The provision for capital and development expenditure broadly follows the pattern laid down by the Planning Commission in the draft Five-Year Plan. The House may remember that the Plan envisaged the Centre producing a revenue surplus of the order of Rs. 26 crores in each of the 5 years covered by it. Although the estimated surplus this year is about Rs. 67 crores larger than the sum envisaged in the Plan, this improvement is only fortuitous and cannot be carried forward to subsequent years. It only helped partially to fill the gap in borrowing during the year and there was no net addition to our resources on this account—indeed we had to run down to some extent the unforeseen accretion to our balances from the previous year.

Next year's budget taken as a whole provides for an overall deficit of Rs. 56 crores, which the increase in the revenue surplus resulting from the abolition of food subsidies will reduce to Rs. 41 crores. This will be well within the estimated balance of payments deficit for the year and will not therefore add in any way to the inflationary position. At the end of the year I expect that our cash balances would be of the order of Rs. 116 crores. Included in this figure will be an unspent balance of Rs. 40 crores received by way of foreign assistance.

I do not propose to embark at any length on a review of the fiscal and financial policy of Government on this occasion of presenting what is virtually a caretaker budget. But looking back on the year just drawing to a close I feel that there is justification for sober satisfaction. Although the country's food problem still remains acute, there has been a notable improvement in other directions. The rise in prices has been halted and there has been a progressive decrease in the price level in recent months. In spite of the difficulties in obtaining some of the essential raw materials, there has been an all round increase in production. The emergence of a realistic and co-ordinated plan of development, as a result of the labours of the Planning Commission, has, I think, convinced people both in this country and outside that we mean, and have set about in right earnest, to tackle the problem of the proper development of the country's resources. I venture to think that the cumulative effect of the fiscal and financial policy in recent months has definitely been to enhance the credit-worthiness of this country. It will, I hope, pave the way for a larger flow of international assistance and foreign investment to this country, to help us in our planned campaign for developing the latent resources of this country for the raising of the standards of life of our people.

## WHITE PAPER ON THE BUDGET, 1952-53

This Paper gives a brief account of the economic conditions in the country during 1951, against the background of which the budget for 1952-53 has been framed. It also describes the broad features of the Revised Estimates for 1951-52 and the Budget Estimates for 1952-53.

### *Review of Economic Conditions*

2. Economic conditions in India during 1951 continued to be difficult, as in most countries of the world, and the main problems continued to be those of arresting inflation and the rise of prices, increasing production and meeting the large deficit in the country's food resources, with another year of a partial failure of rains over many parts of the country.

3. The continuous rise in prices has been a feature of the economy of most countries of the world in the post-war period. This increase was partly due to war-time inflation and partly to the large gap between available supplies of goods and services and the demands for them. In India the position was further aggravated by the economic dislocation created by the partition and natural calamities like a partial failure of the monsoon, drought or floods over large parts of the country in practically every year after the end of the war. More recently, the outbreak of the war in Korea and the large scale switch over to armament production by the United States and the countries of Western Europe gave a further impetus to the upward movement of prices. Another contributory factor was the devaluation of the rupee with the inevitable fillip it gave to inflationary trends.

4. At the end of 1949 the general index number of wholesale prices in this country stood at 381.1, which was also the average for the whole of that year. Throughout 1950 prices continued steadily to rise and by the end of that year the index number had touched 412.6, an increase of over 31 points over the year. There was a further sharp upward movement in the first four months of 1951 and by April the index number had risen to 457.5. The increase was halted at this stage and prices remained steady during the following two months. From July onwards a steady downward movement set in and by January the index number had registered a drop of 29 points compared with the peak figure reached in April 1951.

5. In considering the movement of price levels in India two facts have to be borne in mind. A substantial part of the increase in recent months can be traced to the increase in world prices of imported articles and raw materials over which the Government of India have no control. The increase in Indian prices after the outbreak of war in Korea was also relatively much smaller than in a large number of other countries. As compared with the level of prices in June 1950, the increase in India was only a little over 10 per cent. while prices in other countries registered a much larger increase, the increase in certain cases being well over 30 per cent. Although prices still continue higher than the average of 1950, the steady fall in the price level in recent months is a welcome feature in the country's economy.

6. The fight against inflation in the year under review was greatly assisted by two factors. The first was the realisation of very much more than the substantial revenue surplus provided in the budget which, as explained later, is now estimated at Rs. 92.61 crores against Rs. 26.1 crores provided in the budget. This substantial transfer of purchasing power from the hands of the public to the exchequer helped to hold inflation in check. The improvement in revenue was in part due to the use Government made of the powers given to them by Parliament for increasing the export duties and levying new ones. The export duty on medium and coarse cotton cloth was raised from 10 per cent. to 25 per cent. *ad valorem* and that on groundnuts from Rs. 80 per ton to Rs. 150 per ton. New duties were levied on exports of oilseeds and vegetable oils. Secondly, the sale proceeds of the wheat obtained from the American loan have also had the same effect of reducing the money supply in the hands of the public.

7. Another important step was also taken during 1951 in the fight against inflation by the raising of the Bank Rate from 3 per cent., at which it stood from November 1935, to 3½ per cent. The raising of the Bank Rate is a well-known, but in recent years infrequently used, device for the restriction of credit and a change in the rate produces both a real and a psychological change in the money market. During 1951 there was a sizeable degree of credit inflation, advances by commercial banks showing an increase of over 25 per cent. Bank credit continued at a high level even during the slack season. Conditions in the money market clearly justified the step taken to secure a restriction of credit.

8. The securities market remained fairly steady during most of the year although the tendency for a steady decline in security prices continued throughout the year. There was a sharp recession in prices when the Bank Rate was raised by  $\frac{1}{2}$  per cent. in November which was accentuated by the fear that the Reserve Bank may withdraw all support from the market. Since then there has been a slight improvement in the position although, as was to be expected, security prices still rule at levels considerably below those at the beginning of 1951.

9. The food situation in the country continued to be a matter of considerable anxiety. Serious damage was caused to the Kharif crops and the sowings of the Rabi crops in Kutch, the Gujarat districts of Bombay, the eastern districts of Saurashtra, the southern districts of Madhya Bharat, the eastern districts of Uttar Pradesh, Rajasthan and Ajmer by a partial failure of the monsoon. Rainfall was also inadequate in Madras and Hyderabad and there was drought in parts of Bihar and the Punjab. This partial failure of crops has made it necessary to plan for substantial imports of foodgrains in the coming year, although it is possible that the first estimates made of the crop outturn were unduly pessimistic.

10. Industrial production during 1951 showed marked improvement in spite of the difficulties encountered in obtaining some of the essential raw materials and the cut in the supply of electricity in Bombay, one of the largest industrial areas in the country, due to the failure of rains in that State. The production of jute goods in 1951 amounted to 876,000 tons against 870,000 tons in 1950. The total production of cotton textiles was about 4080 million yards against 3614 million yards in 1950, while another 800 million yards were produced by the handloom industry. The production of cotton yarn was also higher than in 1950. Coal and cement touched new records, the production of coal at 34 million tons showing an increase of 2 million tons over the preceding two years and 4 million tons over 1948, while the cement industry, with a production of a little over 3½ million tons, showed an improvement of  $\frac{1}{2}$  million tons over 1950 and nearly 2 million tons over the production of 1948. The production of steel and sugar was also higher than in 1950, the total sugar produced being a little over 11 lakh tons and steel a million tons. Electrical goods, rubber goods, diesel engines, power-driven



pumps, caustic soda and soda ash, all showed an improvement over the previous years. New industries also came into production during 1951 and linoleum, automatic looms, carding engines and aluminium powder began to be manufactured in the country. In spite of the shortage of sulphur the production of super-phosphates was maintained at the previous year's level.

11. Agricultural production also continued to make good progress, although the additional production of foodgrains was more than wiped out by the shortages due to the failure of rains over large parts of the country. The Grow More Food schemes sanctioned for 1951-52 were estimated to yield an additional production of 14 lakh tons. After taking into account the unfavourable seasonal conditions, it is estimated that the additional production will not fall substantially short of the estimated target for the year. The production of cotton is estimated at 34 lakh bales, against a little over 29 lakh bales in the previous year, while an additional production of 14 lakh bales of raw jute is expected during 1951-52. Government's plan for the integrated production of food, cotton and jute made considerable progress during the year and, but for the continued drought and failure of rains referred to earlier, there was every likelihood of the target of production being achieved.

12. The increase in industrial production, mentioned elsewhere in this Paper, was greatly assisted by the steady improvement in industrial relations. Apart from the disputes relating to Bank employees, which are now under adjudication by a new tribunal, there were no major industrial disputes during 1951. This improvement in industrial relations is reflected in the fewer man-hours lost to industry and the all round increase in production. It is gratifying to note that during the first nine months of 1951 only a little under 3 million man-days had been lost against 12.8 million man-days lost during the whole of 1950. The more cordial relations between management and labour that these figures signify augur well for the continued maintenance of the level of production reached in a large number of industries last year.

13. The heartening increase in production recorded in 1951 was in spite of the fact that a number of industries in India are still working below their installed capacity. The utilisation of this idle capacity is dependent on increased supplies of raw materials, which Government are taking all

possible steps to obtain. India's participation in the recent International Raw Materials Conference has to some extent alleviated difficulties in importing essential materials like sulphur and non-ferrous metals. The reopening of trade with Pakistan and the conclusion of a trade agreement with that country in February 1951 has progressively reduced the difficulties of the jute industry. In addition to the stepping up of internal production, adequate imports of raw cotton for the country's textile industry are also being arranged. Unless any unforeseen developments supervene, the prospects of maintaining, in the coming year, the level of production attained in 1951, may be considered to be reasonably good.

### *Balance of Payments*

14. The improvement noticed in the balance of payments position of the country in 1950 was not maintained during 1951. Although the final figures for that year are not available it is certain that there will be a substantial deficit for the year as a whole; but this is not necessarily a result to be deprecated as a deficit of Rs. 50 to 60 crores is intended to be incurred under the recently renewed Sterling Balances agreement. An indication of the size of this deficit is given by the reduction of the sterling balances held by the Reserve Bank which show a drop of Rs. 53 crores for the year, the balances at the end of December 1951 standing at Rs. 781 crores against Rs. 834 crores at the end of December 1950.

15. This deficit in the balance of payments was due to two main causes. Firstly, there was a reduction in the volume of exports, due partly to the effects of the devaluation of the rupee in September 1949 being spent out and partly to a fall off in the overseas demand for the country's principal exports after the first phase of hectic stock piling following the Korean War and the speeding up of Western rearmament was over. Secondly, there was an increase in the volume of imports and the prices paid for them as compared with the previous year. Although, owing to a rise in overseas prices, the country's foreign exchange earnings in 1951 were higher than in the previous year, this was more than off set by the heavier payments for the imports.

*Dollar Position*

16. There was also some deterioration in the dollar position during 1951. India's contribution to the Central Reserves during 1950 was of the order of \$71 million; preliminary estimates indicate that in 1951 there may be a net withdrawal of \$14 million. The change in the position is mainly due to larger imports of food and cotton from dollar areas; increase in prices and freight rates also contributed to the increase in the country's dollar expenditure.

17. The deterioration in the dollar position is not peculiar to India but has affected the sterling area as a whole. Increased imports from the dollar area by all members of the Sterling Area, particularly the United Kingdom, combined with a decrease in the export earnings due to the slowing down of the stock piling programme in the United States of America, largely account for this overall deterioration. The closure of the Abadan Refinery and the cessation of Persian oil supplies have inevitably forced a number of countries to turn to the dollar area for essential oil supplies. The position has also been aggravated by the fact that the sterling area has also been in deficit with most of the continental countries of Europe and these deficits have had to be settled in gold or dollars. As a result the gold and dollar reserves of the sterling area showed a drop of \$965 million during 1951. Measures for halting this drain on dollar reserves, and building up an adequate reserve for the future, were discussed at the recent conference of Commonwealth Finance Ministers held in January 1952. This conference agreed that the present level of the Central Reserve required that the sterling area as a whole should be in balance with the rest of the world in respect of the second half of 1952 at the latest. The methods for achieving this were left to the discretion of each country and these will necessarily vary according to the circumstances of each country. There was general agreement that the immediate steps to be taken should be directed towards ensuring a sound internal economy, the increasing of exports and export earnings and, as a purely short term measure, wherever there was scope, the reduction of imports. The long term objective is to make sterling freely convertible into all the main currencies of the world.

18. Emphasis was also laid at the conference of the Commonwealth Finance Ministers on each country exploring the

possibility of securing dollar loans for meeting its developmental and other requirements so as to relieve the strain on the current dollar earning. India has been negotiating with the International Bank for Reconstruction and Development for loans for financing some of the country's development projects. A loan of 62.5 million dollars has already been obtained for certain railway, agricultural and thermal schemes. The final figure of this loan is expected to be 59.5 million dollars, of which 45 million dollars have been drawn. Repayment of the railway loan commenced in 1950 while the repayment of the loan for agricultural schemes will start in June 1952. A Mission from the International Bank visited this country in November 1951 to survey the development programme of the country and to recommend to the Bank the extent to which it could assist in financing the execution of the programme, particularly of schemes finding a place in the Five-Year Plan. The Mission visited a number of the projects under execution and held discussions with the Ministries and officers of the Central and State Governments and also the Members of the Planning Commission. The members of the Mission have stated that they were personally impressed with India's determination and readiness to go ahead with national development and were satisfied that the rate of development had been accelerated throughout the country and over the entire field. More recently, the head of the International Bank has also paid a visit to India with a view to familiarising himself with the economic conditions in the country and particularly her programme for development in the context of the Five-Year Plan prepared by the Planning Commission. Negotiations for the grant of further loans by the Bank for financing a number of schemes are in progress.

19. During 1951 the Government of India were also greatly assisted by the loan of \$190 million from the United States Government for the purchase of 2 million tons of foodgrains in that country. This loan carries interest at  $2\frac{1}{2}$  per cent. per annum and is repayable in semi-annual instalments over a period of 30 years commencing in June 1957. Purchases under this loan agreement are expected to be completed by June 1952. The sum realised by Government from the sale of the foodgrains purchased out of the loan is being credited to a Special Development Fund which will be utilised for financing development schemes and for assisting the

State Governments with short and medium term loans (and in exceptional cases grants) for their development schemes.

20. A forecast of the balance of payments position during 1952 can at best be only a conjecture. Such data as are now available do not, however, give any hope of an appreciable improvement in the position that year as compared with 1951. It is unlikely that the total export earnings of the country will increase appreciably while substantial imports of foodgrains, raw cotton, petroleum products and essential goods, like machinery, will have to be financed, so as to maintain an adequate level of internal production and to go forward with the execution of the development projects necessary for the country's advancement. The high levels of world prices of raw materials and manufactured goods that still prevail, although to a diminished extent, are also certain to increase the country's payments for imports.

### *Sterling Balances*

21. The understanding reached in 1951 with the United Kingdom Government regarding the release of the Sterling balances held by the Government of India was recently confirmed by a formal exchange of letters between the Finance Minister and the Chancellor of the Exchequer, copies of which have been placed before Parliament. Under the latest arrangements, the United Kingdom Government have agreed to release during the six years ending June 1957 a sum of £35 million a year from these balances. They have also agreed to transfer £310 million from Account No. 2 to Account No. 1, to be held by the Reserve Bank of India as part of the currency reserve, to be drawn upon only in an emergency. Provision has been made for the carry over of undrawn amounts from one year to another and for consultations between the two Governments in case it is found necessary in any year to make a call on a subsequent year's allocation in excess of £5 million. At the end of the six-year period covered by the present agreement, it is expected that the balances would have reached the amount normally required to be maintained as a currency reserve. The problem of the orderly liquidation of these war-time accumulations may now be considered as satisfactorily settled in the mutual interests of both the countries.

### *Financial Year 1951-52*

22. Against an estimated revenue surplus of Rs. 261 crores, it is now expected that the surplus for the year will

amount to Rs. 92.61 crores. The improvement of Rs. 66.51 crores reflects an increase of Rs. 95.78 crores in revenue of which Rs. 29.27 crores are expected to be absorbed by additional expenditure.

### *Revenue*

23. The total revenue for the year is now estimated at Rs. 497.67 crores against the budget estimate of Rs. 401.89 crores. The improvement of Rs. 95.78 crores is mostly accounted for by increased revenue under Customs the revised estimates for which have been placed at Rs. 232 crores against the budget estimate of Rs. 156 crores. The yield from import duties has been much larger than was estimated at the time the budget was framed and the Exchequer has benefitted both from the expansion of imports and the higher income from *ad valorem* duties resulting from an increase in import prices. The yield from export duties, particularly the export duty on jute, has also been far more than was expected. In framing the budget for 1951-52, the yield from the export duty on jute was taken at a conservative figure as the possibility of having to adjust the level of the duty during the course of the year had to be kept in view taking into account the specialised market for jute and jute products. But market conditions made it possible to retain the duty without change for most of the year. The collections of income-tax are also expected to show an improvement of Rs. 10 crores largely due to the recent drive for the voluntary disclosures of hidden incomes. The States' share of income-tax, including an arrear payment of Rs. 24 crores, is now placed at Rs. 52.7 crores against the budget estimate of Rs. 47.53 crores. Union Excises are now placed at Rs. 84.3 crores, the improvement of Rs. 4.68 crores over the budget being mainly due to increased revenue from the Excises on cotton cloth, sugar, matches and tyres and tubes counterbalanced by a drop of Rs. 2.65 crores in the tobacco excise and Rs. 1 crore in the excise duty on tea. The contribution from Posts and Telegraphs will be Rs. 1.54 crores more than the budget, reflecting an increase of Rs. 3.3 crores in the revenue and Rs. 1.76 crores in the expenditure of that Department. The profits from the Reserve Bank for the year ended June 1951 were a crore less than estimated but this and other minor variations will be more than set off by an increase of Rs. 2 crores, spread under a number of heads under Civil Administration and certain unforeseen recoveries from completed contracts amounting to nearly Rs. 5 crores. There was also

an unforeseen receipt of £250,000 from the New Zealand Government as part of their assistance under the Colombo Plan.

### *Expenditure*

24. The total expenditure for 1951-52 is now estimated at Rs. 405.06 crores of which Defence Services account for Rs. 181.24 crores and Civil Estimates for Rs. 223.82 crores.

25. *Defence Services*.—At the time the budget was prepared it was hoped to effect a further reduction in the strength of the Armed Forces and provision was made on this basis. But subsequent developments, notably the deterioration in the relations between Pakistan and this country, made it impossible to proceed with the plan for this reduction. On the contrary, it became necessary to take certain precautionary measures to meet a possible threat to the country's security. As a result, the expenditure on the Army is likely to exceed the budget provision by Rs. 10.85 crores. But, taking Defence Services as a whole, this additional expenditure will be nearly set off by savings in the provision for expenditure on stores, particularly imported stores, and by an increase in receipts.

26. *Civil Expenditure*.—The increase of Rs. 28.05 crores in Civil expenditure is mostly due to additional expenditure on the relief of displaced persons and food subsidy. Expenditure on displaced persons is now estimated at Rs. 13.83 crores, an increase of Rs. 4 crores over the budget, while the total expenditure on food subsidies, including the payment of bonus on procurement, is now expected to amount to Rs. 38.66 crores against the budget provision of Rs. 25.32 crores. The increase in the expenditure on displaced persons is mostly due to developments in the two Bengals, where the position in regard to the movement of populations still remains fluid. The increased prices paid for imported foodgrains and the rise in freight rates have inevitably raised the liability of the Centre for food subsidies. The revised estimates also include an additional provision of Rs. 2.07 crores for payment of certain preintegration arrears of match excise duty to the Part B States, the exact amounts of which took some time to determine, and Rs. 1½ crores for the payment of certain arrears of grants to cover the revenue gap arising from the integration of the former Princely States. The provision under a number of heads had also to be increased in the light of actual requirements.

*Financial Year, 1952-53*

27. Before dealing with the estimates for the coming year an important change affecting these estimates may be mentioned. As a result of the Government of Part C States Act, 1951, Coorg, Himachal Pradesh, Vindhya Pradesh, Delhi, Bhopal and Ajmer will shortly have their own Legislatures and Governments responsible to them. Except in the case of Coorg, the revenue and expenditure of which have been kept separate from 1924, the transactions relating to the other Part C States have so far been included in the budget of the Central Government. As a result of the legislation mentioned above, the revenue and expenditure of these States will be included in their budgets which will be presented in due course to the Legislatures of these States to be passed by them. Each of the States will have a Consolidated Fund of its own into which the revenues and receipts received in that State in relation to any matter in which the Legislative Assembly of the State has power to make laws and all grants made from the Consolidated Fund of India to that State will be paid and from which the expenditure of the State will be met. The transactions relating to these States have accordingly been omitted from the budget estimates of the Central Government. In respect of Delhi State, however, the Act makes a reservation in respect of police, public order and lands and buildings in Delhi and New Delhi and the receipts and expenditure pertaining to these subjects will still be included in the Central budget. These States, however, have not been placed in the same autonomous position in regard to their finances as the States in Part A or Part B of the First Schedule to the Constitution. Their balances have not been separated from the balances of the Central Government and their capital requirements and the debt, deposit and remittance transactions will still be included in the Central budget as in the past. A grant-in-aid will be given, where necessary, to these States to enable them to balance their revenue budget and keep an adequate working balance in their Consolidated Funds. As the provisions of Part XII of the Constitution do not apply to the Part C States, they will not receive any share of the net proceeds of income-tax or other divisible heads of Central revenue like the Part A and the Part B States.

28. The Finance Commission provided for in Article 280 of the Constitution was constituted on the 1st December 1951



under the Chairmanship of Shri K. C. Neogy. The Commission have commenced their work but as their recommendations can be formulated only after a detailed enquiry, which will take some time, they recommended to the President that pending their final recommendations and the decisions that may be taken upon them the existing arrangements for the allocation of income-tax and payments of grants-in-aid may be allowed to continue, on the understanding that the final decisions on their recommendations will be given effect to from the 1st April 1952. This recommendation has been accepted by the President and provision has been made in the budget for next year on this basis.

29. At the existing level of taxation the total revenue for the coming year is estimated at Rs. 424.98 crores and the total expenditure at Rs. 406.25 crores leaving a surplus of Rs. 18.73 crores.

### *Revenue*

30. The revenue from Customs has been placed at Rs. 190 crores against the revised estimate of Rs. 232 crores for the current year. The level of revenue reached in 1951-52 is altogether exceptional and it will be unrealistic to assume that the yield from Customs duties can be indefinitely maintained at this high figure, particularly in view of the recent reduction in the export duty on hessian by fifty per cent. The revenue from this source is bound to fluctuate from year to year depending as it does upon so many factors such as the availability of foreign exchange, changes in import and export policies, the maintenance of the overseas demand for the country's primary exports, the availability of supplies and shipping, and changes in world prices of the principal exports and imports. The extent to which this revenue is vulnerable to changes in policies and economic conditions will be obvious from the fact that in the four years ending 1951-52 the revenue has risen from Rs. 126 crores to Rs. 232 crores and the yield of export duties from Rs. 27 crores to Rs. 90 crores. Union excises have been placed at Rs. 86 crores, more or less on the basis of the revised estimate for 1951-52. Income-tax, the yield from which is bound to fall in the next two or three years with the disappearance of arrear collections of taxes which, like the Business Profits Tax, Excess Profits Tax and the Capital Gains Tax are no longer in force and the recent measures for the clearance of

arrears, is estimated to bring in Rs. 150 crores, of which Rs. 50·84 crores will be assigned to the States as their share of the tax, including an arrear of Rs. 5 crores. The contribution from the Posts and Telegraphs is estimated at Rs. 1·16 crores while the contribution from Railways, after adjusting a part of the dividend received from the Railways in reduction of interest charges, is placed at Rs. 7·85 crores. The profits from the Reserve Bank next year are expected to amount to only Rs. 7·5 crores against Rs. 9·34 crores in 1951-52. Credit has also been taken for a sum of Rs. 9 crores on account of the first instalment of the partition debt of Pakistan to India which falls due on the 15th August 1952. The exact amount of the debt has still to be determined and the amount taken is only a rough estimate. Under other heads there is a drop of Rs. 15·01 crores accounted for partly by the disappearance of the revenue under State heads in the five Part C States whose budgets have been separated from the Central budget from the coming year, as explained earlier, and the elimination of certain non-recurring items.

### *Expenditure*

31. The total expenditure for next year is estimated at Rs. 406·25 crores, an increase of Rs. 1·19 crores over the revised estimate for 1951-52. Expenditure on Defence Services is estimated at Rs. 197·95 crores and that under Civil heads at Rs. 208·3 crores.

32. *Defence Services.*—Of the total estimated expenditure of Rs. 197·95 crores, Rs. 148·69 crores is on the Army, Rs. 11·03 crores on the Navy, Rs. 22·65 crores on the Air Force and Rs. 15·58 crores on non-effective charges. The increase over the revised estimate is mostly on account of the carry over of liabilities for stores already on order but not received in 1951-52.

33. As explained earlier in this Paper, a plan for a reduction in the strength of the Army, which it was intended to effect in 1951-52, could not be implemented. So long as any danger to the country's security exists, there can obviously be no question of a reduction in the size of the Army, without which it is not possible to secure any appreciable reduction in the size of the Defence budget. But while this remains, as it has to, the over-riding factor in the situation, the search for economy has, by no means, been abandoned. A critical examination of the organisation and equipment of the Armed Forces as they exist today has been undertaken. The results of this examination may well lead to an overhaul of the entire

administrative frame work of the Armed Services and to the elimination of waste and inefficiency wherever it still exists.

34. *Civil Estimates.*—The expenditure under Civil heads next year is estimated at Rs. 208·3 crores against the revised estimate of Rs. 223·82 crores. The drop of Rs. 15·52 crores is accounted for by a reduction of Rs. 13·66 crores in the expenditure on food subsidies, and Rs. 3·74 crores in the provision for expenditure on displaced persons. The expenditure on tax collection and Civil Administration will be less in the current year owing to the transfer of the provision relating to the State subjects to the budgets of the five Part C States, which will have their own Legislatures and budgets from the 1st April 1952. Debt services are expected to show a saving of Rs. 1·14 crores due mainly to less borrowing during the previous year. The Budget includes a provision of Rs. 4 crores for grants-in-aid to Part C States to enable them to balance their revenue budgets and keep a sufficient working balance in their Consolidated Funds.

*Capital Expenditure.*

35. The budget for 1951-52 includes a provision of Rs. 77·1 crores for Capital outlay and Rs. 62·61 crores for advances to State Governments for meeting their capital requirements and for rehabilitation of displaced persons. Capital expenditure is now estimated at Rs. 74·8 crores, excluding a provision of Rs. 71 crores for the transfer to a Special Development Fund of the sale proceeds of American wheat purchased from the loan made available by the United States. The revised estimate includes a provision of Rs. 78·78 crores for loans to State Governments, out of which a sum of Rs. 15 crores will be met from the Special Development Fund just mentioned and the rest from the general balances. The provision in the revised estimates maintains capital expenditure on the scale envisaged in the budget except that because of the improvement in the ways and means position due to the substantial receipts from the sale of American wheat it has been possible to increase the total allocation for the River Valley schemes from Rs. 29·6 crores provided in the budget to Rs. 36·5 crores and also to increase the allotment for essential Defence works. Schemes of State trading during the year are now estimated to involve a net outgo of only Rs. 9 crores against Rs. 13·68 crores estimated at the time the budget was framed.

36. For next year a total provision of Rs. 68·73 crores has been made for capital outlay and Rs. 82·84 crores for

loans to State Governments, of which Rs. 25 crores will come from the Special Development Fund. This includes Rs. 15.36 crores for Railways, Rs. 4.85 crores for Posts and Telegraphs, Rs. 9.85 crores for industrial development, Rs. 1.92 crores for development of Civil Aviation, Rs. 1.18 crores for additional office and residential accommodation in New Delhi, Rs. 40 crores for the River Valley schemes, Rs. 16.79 crores for Civil Works including Communications and Rs. 17 crores for capital outlay on Defence. Included in the provision for loans to States are Rs. 14.11 crores for rehabilitation of displaced persons and Rs. 7.62 crores for loans on Grow More Food schemes.

37. The provision for development and capital expenditure in the budget broadly follows the plan suggested by the Planning Commission in the First Draft of the Five-year Plan prepared by it. This plan envisages a total expenditure of Rs. 1,493 crores in the public sector over a period of five years ending March 1956 by the States and Central Governments taken together, of which Rs. 192 crores will be on Agriculture and Rural development, Rs. 450 crores on Irrigation and Power Schemes, Rs. 388 crores on the development of Transport and Communications, Rs. 101 crores on Industrial Development, Rs. 254 crores on Social Services, Rs. 79 crores on the rehabilitation of displaced persons and Rs. 29 crores on miscellaneous projects. The programme of development envisaged by the Commission will be stepped up by a further Rs. 300 crores if the necessary amount of foreign assistance becomes available. Government have accepted the broad plan of the Commission which will be implemented within the limits of the available resources. For the first time in the development of the country, it has before it a coordinated plan which takes into account the progress already made in the postwar years, sets out a balanced scheme of priorities, covers both the private and public sectors and also gives a broad indication of the sources from which finance for its implementation should be sought.

38. Earlier in this Paper mention has been made of the loans taken from the International Bank for Reconstruction and Development for the financing of certain development schemes and of negotiations for obtaining further loans. Some further foreign assistance in implementing the development programme of the country has recently been secured under the American Technical Cooperation Scheme. The United States Government have generously agreed to make

a contribution of \$50 million, which will be allocated by the end of June 1952, to be placed into a fund called the Indo-American Technical Cooperation Fund. The Government of India will also contribute in rupees to this Fund and the total sum available for this programme is estimated at Rs. 50 crores. The projects financed from the Fund will be coordinated with the Five-year Development Plan and administered in close cooperation with the Central and State Governments. The Fund will be mostly utilised on projects aimed at raising the efficiency of agriculture and increasing food production. Among the projects is likely to be a community development programme involving the setting up of about 50 rural-urban development areas in different parts of the country, many of them in areas round the new river valley projects or tube-well development projects of the State and Central Governments. This programme will draw upon the experience of the Uttar Pradesh Government relating to the Etawah Development Scheme and also the experience of the newly built townships for displaced persons at Nilokheri and Fari-dabad. It will be administered jointly by a representative each of the Indian and United States Government and quarterly and annual reports will be issued giving an account of the progress of the various schemes financed from the Fund.

### *Ways and Means*

39. The budget for 1951-52 provided for a borrowing of Rs. 100 crores in the market and the receipt of Rs. 4.84 crores from the dollar loans taken from the International Bank for Reconstruction and Development. Conditions in the capital market were, however, not favourable for raising money on the scale envisaged in the budget and it was possible to borrow only Rs. 50 crores. A sum of Rs. 3.24 crores has been drawn from the International Bank's loan against the sum of Rs. 4.84 crores taken in the budget. The revised estimate for the year also takes credit for a loan of Rs. 90 crores obtained from the United States for the purchase of 2 million tons of foodgrains. Provision could not be made in the original budget for this loan as it had not been finally settled at the time the estimates were under preparation. For next year, credit has been taken for only Rs. 25 crores from market borrowing. Market conditions are still far from easy and on present indications the prospects of raising a larger sum are very slight. Also, there is no rupee loan maturing in that year so that the market will not be receiving any funds from such repayments which

usually come back to Government in part through fresh borrowing. The budget also takes credit for a sum of Rs. 1.06 crores for miscellaneous dollar loans.

40. The net receipts from small savings in 1951-52 are estimated at Rs. 40.52 crores against Rs. 42.86 crores assumed in the budget. The short-fall of Rs. 2.34 crores is mainly due to larger withdrawals from Postal Savings Banks from which there appears to be some amount of diversion to the more lucrative investments provided by the Ten-Year Treasury Savings Deposits. The encashments of Post Office Five-Year Cash Certificates are also slightly more than anticipated but this is likely to be more than counterbalanced by improved receipts from the sale of National Savings Certificates and from Treasury Savings Deposits. For next year the net receipts from Small Savings have been taken at Rs. 44.57 crores.

41. In the altered pattern of the distribution of national income brought about by the changes in the war years and the post war period, the role of small savings in the mobilisation of capital required for national development has become very important and the development of the small savings movement is receiving the continuous attention of Government. A substantial sum of money is being spent on propaganda and in educating the public in the need for thrift and savings. The question of broadening the basis of investment, so as to provide a variety of issues likely to appeal to different sections of the community, is also under constant examination. The issue of Treasury Savings Deposit Certificates early in 1951 has been an unqualified success and the receipts from these certificates are likely to be over Rs. 20 crores by the end of March 1952. If investments are maintained at the current level, the receipts may amount to Rs. 15 crores a year.

### *Conclusion*

42. The broad effects of the budget on the economy of the country may be briefly summarised. In the inflationary trends which have been persisting in recent years a balance has necessarily had to be struck between the need to restrict Government spending as much as possible to avoid the generation of further inflation and the demands for increased expenditure on schemes of national development without which the country's progress cannot be maintained. In every one of the years following the partition there have been large revenue surpluses which have gone to assist the capital

budget. The amount of this surplus is exceptionally high for 1951-52 but will still be substantial in the coming year. While in 1948-49 and 1949-50 there was an overall budgetary deficit involving the withdrawal of Rs. 124 crores in all from the accumulated balances there was a small overall surplus of Rs. 12 crores in 1950-51. The budget for 1951-52 provided for an overall deficit of Rs. 52 crores but the revised estimates indicate that this deficit may amount to no more than Rs. 4 crores. This improvement, despite a short-fall of Rs. 50 crores in borrowing during the year, is due not so much to the spectacular increase in revenue but to the easing of the ways and means position from the sale proceeds of the American Loan Wheat. For next year the budget estimates, confined as in the past to essential and unavoidable spending, provide for an overall deficit of Rs. 56 crores. This amount will be well within the balance of payments deficit anticipated for that year and will not, therefore, affect materially the inflationary position. At the end of the budget year the Government of India will be carrying a comfortable balance of a little over Rs. 100 crores but it should be remembered that about Rs. 40 crores of this will represent unspent balances from assistance received from abroad.

#### SUMMARY OF FINAL ESTIMATES REVENUE

(In lakhs of Rs.)

	Budget 1951-52	Revised 1951-52	Budget 1952-53
Customs . . . . .	1,56,04	2,32,00	1,90,00
Union Excise Duties . . . . .	79,62	84,30	86,00
Corporation Tax . . . . .	32,73	37,55	30,53
Taxes on Income other than Corporation Tax . . . . .	84,69	84,75	68,63
Opium . . . . .	2,35	2,75	2,20
Interest . . . . .	1,67	2,01	2,33
Civil Administration . . . . .	8,42	10,45	8,90
Currency and Mint . . . . .	12,32	11,31	10,39
Civil Works . . . . .	1,52	1,41	1,51
Other sources of Revenue . . . . .	12,94	19,60	6,35
Posts and Telegraphs— Net contribution to general revenues . . . . .	2,33	3,87	1,16
Railways— Net contribution to general revenues . . . . .	7,26	7,34	7,65
Extraordinary Items . . . . .	..	33	9,33
<b>TOTAL—REVENUE</b> . . . . .	<b>4,01,89</b>	<b>4,07,67</b>	<b>4,24,98</b>

	Budget 1951-52	Revised 1951-52	Budget 1952-53
EXPENDITURE			
Direct Demands on revenue . . . . .	14,35	16,95	15,76
Irrigation . . . . .	26	26	18
Debt Services . . . . .	37,33	37,30	36,16
Civil Administration . . . . .	54,29	56,66	55,98
Currency and Mint . . . . .	2,61	2,81	3,20
Civil Works . . . . .	13,31	13,25	14,96
Pensions . . . . .	7,35	8,49	7,95
Miscellaneous—			
Expenditure on refugees . . . . .	9,83	13,83	10,09
Subsidy on foodgrains . . . . .	25,32	38,66	25,00
Other Expenditure . . . . .	2,10	5,46	7,88
Grants to States, etc. . . . .	15,43	18,08	20,28
Extraordinary Items . . . . .	13,59	12,07	10,86
Defence Services (Net) . . . . .	1,80,02	1,81,24	1,97,95
TOTAL—EXPENDITURE . . . . .	3,75,79	4,05,06	4,06,25
Surplus . . . . .	+26,10	+92,61	+18,73